



DEPARTMENT OF HEALTH & HUMAN SERVICES

Centers for Medicare & Medicaid Services

Traci W.

SEP - 3 2008

Region IX
Division of Medicaid & Children's Health Operations
90 Seventh Street, Suite 5-300 (5W)
San Francisco, CA 94103-6706

Mr. Stan Rosenstein
Chief Deputy Director of Health Care Programs
California Department of Health Care Services
1501 Capital Avenue, MS 0000
P. O. Box 997413
Sacramento, CA 99859-7413

Dear Mr. Rosenstein:

Enclosed is our final report (Control Number 09-FA-2008-CA-01-F) entitled "Review of California Department of Health Care Service's Oversight of Administrative Costs Claimed by Other Governmental Agencies".

The purpose of our review was to determine if DHCS is meeting the federal requirements for its cost allocation plan in relation to costs being claimed for governmental agencies outside of the State Medicaid Agency, and, if DHCS has adequate internal controls in place to ensure that claims for administrative costs are in compliance with federal requirements.

We appreciate your letter of July 10, 2008, in which DHCS agreed to review the compliance requirements for its interagency agreements with its Contracts Management unit and the California Department of General Services. DHCS will also expand its invoice submission requirements for all interagency agreements to include the submission of additional supporting documentation. A copy of your letter has been incorporated into the enclosed final report.

Sincerely,

Gloria Nagle
Associate Regional Administrator
Division of Medicaid and Children's Health Operations



Financial Management Report

REPORT ON FINANCIAL MANAGEMENT REVIEW

OF CALIFORNIA DEPARTMENT OF HEALTH CARE SERVICE'S

OVERSIGHT OF ADMINISTRATIVE COSTS CLAIMED BY

OTHER GOVERNMENTAL AGENCIES

FOR THE PERIOD OF STATE FISCAL YEAR 2007

09-FA-2008-CA-01-F

AUGUST 2008

DIVISION OF MEDICAID AND CHILDREN'S HEALTH OPERATIONS
CENTERS FOR MEDICARE & MEDICAID SERVICES
SAN FRANCISCO REGIONAL OFFICE

TABLE OF CONTENTS

	Page
Executive Summary	3
Introduction/Background	3
Purpose and Scope	4
Findings	5
Recommendations	6

I. EXECUTIVE SUMMARY

The Centers for Medicare and Medicaid Services (CMS) San Francisco Regional Office (RO) reviewed the California Department of Health Care Service's (DHCS) oversight of administrative costs that are claimed for other governmental agencies. Our review was limited to the interagency agreements for 12 governmental agencies identified in Section 2 of the DHCS Cost Allocation Plan that were not covered by a separately approved plan. DHCS estimated that SFY 2007 billings from these agencies would exceed \$130 million FFP.

We found that the interagency agreements supporting these costs were not fully compliant with federal regulations since they did not contain a description of the basis upon which the billings would be made to DHCS. We also found that DHCS lacked adequate internal controls to oversee the claiming of these costs. Based upon these findings, we believe there is a substantial risk that DHCS could approve unallowable costs and claim those costs on the CMS-64 reports.

We recommend that DHCS:

1. Review all of its interagency agreements for administrative costs and amend, as appropriate, to ensure full compliance with federal regulations, and
2. Establish internal controls over the review and approval of invoices for administrative costs submitted by other governmental agencies.

By letter dated July 10, 2008, DHCS responded to the report that it was in agreement with the report's recommendations. DHCS will review the compliance requirements for its interagency agreements with its Contracts Management unit and the California Department of General Services. DHCS will also expand its invoice submission requirements for all interagency agreements to include the submission of additional supporting documentation. A copy of the State's response is attached to the report.

II. INTRODUCTION

BACKGROUND

Medicaid Program

Title XIX of the Social Security Act (the Act) authorizes federal grants to states for Medicaid programs that provide medical assistance to needy individuals. Federal funds are available to states for expenditures associated with the medical care of low-income families, persons with disabilities and the elderly if the medical payments have been made pursuant to an approved State plan.

Cost Allocation Plan Requirements

The Social Security Act provides for payments to states, on the basis of specified percentages for the administration of an approved State plan (Section 1903(a)(2)-(5), (7)). Under the Act, the Single State Agency must have on file with the Department a cost allocation plan that complies with the requirements of 45 C.F.R. §95 Part E. Federal regulations at 45 C.F.R. §95 (b) (6) require that the Single State Agency cost allocation plan contain a statement stipulating that wherever costs are claimed for services provided by a governmental agency outside the State Agency, that they be supported by a written agreement that includes, at a minimum, (i) the specific service(s) being purchased, (ii) the basis upon which the billing will be made by the provider agency (e.g. time reports, number of homes inspected, etc.) and, (iii) a stipulation that the billing will be based on the actual cost incurred. This statement would not be required if the costs involved are specifically addressed in a state-wide cost allocation plan, local-wide cost allocation plan, or an umbrella/departments cost allocation plan.

California Cost Allocation Plan

California's DHCS is the Single State Agency designated to administer or supervise the administration of the Medicaid Program under Title XIX of the Act. The DHCS cost allocation plan (CAP) identifies administrative costs that will be claimed for governmental agencies that are outside of DHCS. The CAP includes a brief description of the activities being performed by these other agencies. DHCS is responsible for ensuring that all claims submitted for administrative costs by these other governmental agencies comply with federal regulations including, Office of Management and Budget (OMB), Circular A-87.

III. PURPOSE AND SCOPE

The objective of this review is to determine:

- If DHCS is meeting the federal requirements for its cost allocation plan in relation to administrative costs being claimed for governmental agencies outside of the State Medicaid Agency, and
- If DHCS has adequate internal controls in place to ensure that claims for administrative costs are in compliance with federal requirements.

Our fieldwork was conducted during January and February 2008. Our review was limited to the interagency agreements for 12 governmental agencies identified in Section 2 of the DHCS CAP that are not covered by a separately approved plan. According to the details contained within the interagency agreements, DHCS estimated that SFY billings from these agencies would exceed \$130 million FFP.

To accomplish our objectives we:

- Reviewed applicable laws and regulations;
- Reviewed the California State plan;

- Interviewed DHCS program and financial staff;
- Reviewed the applicable DHCS interagency agreements;
- Reviewed invoices submitted by other governmental agencies for costs covered by the interagency agreements;
- Reviewed the supporting documentation provided by DHCS for the CMS-64 reports;
- Reviewed the Medi-Cal budget.

IV. FINDINGS

1. **The interagency agreements maintained by DHCS are only compliant with two of the three required elements described at 45 C.F.R. §95.507 (b)(6).**

In our review of the interagency agreements covering the administrative costs claimed by other governmental agencies outside of DHCS, we found that these agreements did not fully comply with federal regulations. Specifically, we found that the agreements maintained by DHCS were only compliant with two of the three required elements described at 45 CFR 95.507(b)(6). The agreements provided adequate descriptions of the services being purchased as well as a stipulation that the billings were to be based on actual costs. However, the agreements did not provide a description of the basis upon which the billings would be made by the other governmental agencies. This is an express requirement of 45 CFR 95.507 (b)(6)(ii).

Upon reviewing the interagency agreement for the California Department of Aging (CDA), we found no description of how CDA would be allocating costs to the Medicaid Program. The DHCS CAP indicates that the California Department of Aging (CDA) will perform administrative activities to assist in the development and implementation of health programs and services for older persons and other functionally impaired adults. The DHCS CAP also states that the costs associated with these activities will be determined in accordance with the interagency agreement and claimed at 50% FFP. However, the interagency agreement only contained the following language,

"For services satisfactorily rendered, and upon receipt and approval of the invoices, DHS agrees to compensate CDA for actual expenditures incurred in accordance with the budget attached hereto."

We found similar language in both the DHCS CAP and associated interagency agreements for several other agencies including the Department of Developmental Services, Department of Alcohol and Drug Programs, Department of Veterans Affairs, and the Department of Mental Health.

By not clearly documenting the basis for how costs are to be allocated to the Medicaid program, there is a high risk of unallowable or unallocable costs being approved by DHCS and

subsequently claimed on the CMS-64 reports. In the example above for CDA, it is unclear how CDA will determine actual expenditures to ensure that Medicaid is not being charged for costs related to other programs administered by CDA.

2. DHCS lacks sufficient internal controls to ensure that administrative claims by other governmental agencies comply with federal requirements.

Based on our discussions with DHCS staff and our review of the supporting documentation accompanying the claims for administrative costs from other governmental agencies, we determined that DHCS lacks sufficient internal controls to ensure that amounts being claimed are in compliance with federal requirements. For example, we noted the following:

- a. DHCS staff appeared to review the submitted invoices to ensure amounts were computed correctly on the invoice itself and that there was sufficient budget authority to pass through the funds. We found no documentation that DHCS reviewed the invoices in detail to determine the allowability or reasonableness of the amounts being claimed.
- b. DHCS has not provided guidance to other governmental agencies on the federal requirements for documenting employee time associated with claims for enhanced FFP rates, such as SPMP.
- c. DHCS does not verify that other governmental agencies are applying the approved indirect cost rates on administrative invoices. Additionally, DHCS does not verify that any additional operating costs being claimed should not have already been included as part of the indirect cost rate.
- d. DHCS requires minimal detailed supporting documentation from other governmental agencies for the administrative costs. We found only summary level documentation for administrative costs on file at DHCS. This minimal documentation is especially concerning when considering the lack of a documented basis for the claims as described in Finding #1.

Federal regulations require that DHCS ensure that administrative claims by other governmental agencies follow established regulations, including the principles and standards prescribed in OMB Circular A-87. The lack of sufficient internal controls indicates a high risk of unallowable or unallocable costs being approved by DHCS and claimed on the CMS-64 reports.

RECOMMENDATIONS

1. **We recommend that DHCS review all of its interagency agreements for administrative costs and amend, as appropriate, to ensure full compliance with federal regulations.**

DHCS must ensure that all of its interagency agreements include the basis upon which the billings will be made to the Medicaid program as required by 45 CFR 95.507 (b) (6) (ii). The lack of a documented basis for the submitted costs to the Medicaid program indicates a significant risk that DHCS will approve unallowable costs and claim those costs on the CMS-64 reports.

2. **We recommend that DHCS establish internal controls over the review and approval of invoices for administrative costs submitted by other governmental agencies.**

We noted several examples of internal control weaknesses in the review and approval of invoices for administrative costs submitted by other governmental agencies. DHCS should implement procedures to strengthen the overall control process to ensure that all amounts claimed comply with federal requirements. The lack of adequate internal controls indicates a significant risk that DHCS will approve unallowable costs and claim those costs on the CMS-64 reports.

THE STATE'S COMMENTS

By letter dated July 10, 2008, DHCS responded to the report that it was in agreement with the report's recommendations. DHCS will review the compliance requirements for its interagency agreements with its Contracts Management unit and the California Department of General Services. DHCS will also expand its invoice submission requirements for all interagency agreements to include the submission of additional supporting documentation. A copy of the State's response is attached to the report.



SANDRA SHEWRY
Director

State of California—Health and Human Services Agency
Department of Health Care Services
DIVISION OF MEDICAID
& CHILDREN'S HEALTH
REGION IX



ARNOLD SCHWARZENEGGER
Governor

2008 JUL 15 P 2: 46

JUL 10 2008


Ms. Jackie L. Glaze
Acting Associate Regional Administrator
Division of Medicaid and Children's Health Operations
Centers for Medicare & Medicaid Services
90 Seventh Street, Suite 5-300 (5W)
San Francisco, CA 94103-6706

Dear Ms. Glaze:

The California Department of Health Care Services (DHCS) has prepared its response to the Centers for Medicare & Medicaid Services' (CMS) draft report entitled "Review of California Department of Health Care Services' Oversight of Administrative Costs Claimed by Other Governmental Agencies" (Control Number 09-FA-2008-CA-01-D). The DHCS appreciates the work performed by CMS and the opportunity to respond to the draft report.

Please contact me at (916) 440-7400 if you have any questions.

Sincerely,


Stan Rosenstein
Chief Deputy Director
Health Care Programs

California Department of Health Care Services' Response to the
Centers for Medicare & Medicaid Services Draft Report Entitled

*Review of California Department of Health Care Services' Oversight of
Administrative Costs Claimed by Other Government Agencies*

Recommendation: We recommend that the Department of Health Care Services (DHCS) review all of its interagency agreements for administrative costs and amend, as appropriate, to ensure full compliance with federal regulations.

Response: All interagency agreements are reviewed by the DHCS' Contracts Management Unit, as well as the Department of General Services, for compliance with state and federal laws and regulations. Nonetheless, the DHCS will revisit this matter with both entities and the governmental agencies.

Recommendation: We recommend that DHCS establish internal controls over the review and approval of invoices for administrative costs submitted by other governmental agencies.

Response: The DHCS will expand its invoice submission requirements for all interagency agreements to include the submission of supporting source-document summary reports.